

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Honor	County Benzie
Fiscal Year End December 31, 2005	Opinion Date February 21, 2006	Date Audit Report Submitted to State May 30, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) J L Stephan Co, PC		Telephone Number 231-941-7600		
Street Address 862 E. Eighth St.		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature 		Printed Name Jerry L. Stephan		License Number 1101010359

# **Village of Honor**

*Benzie County, Michigan*

*Financial Statements*

*And Supplemental Information*

*December 31, 2005*

## Table of Contents

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	<b><u>Page</u></b>
<b>FINANCIAL SECTION</b>	
<u>Independent Auditor's Report</u>	1
<u>Financial Statements</u>	
<u>Exhibit</u>	
A Government Wide Statement of Net Assets	2
B Government Wide Statement of Activities	3
C Governmental Fund Balance Sheet	4
D Governmental Fund Statement of Revenue Expenditures and Changes in Fund Balance	5
E Reconciliation of the Statement of Revenue, Expenditures, And Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
F Proprietary Fund Statement of Net Assets	7
G Proprietary Fund Statement of Revenue, Expenses Expenses and Changes in Net Assets	8
H Proprietary Fund Statement of Cash Flows	9
<u>Notes to Financial Statements</u>	10-17
<b>REUIRED SUPPLEMENTAL INFORMATION</b>	
<u>Schedule</u>	
1 Budgetary Comparison Schedule – General Fund	18
2 Budgetary Comparison Schedule – Major Streets Fund	19
3 Budgetary Comparison Schedule – Local Streets Fund	20
<b>OTHER INFORMATION (UNAUDITED)</b>	
<u>Comments and Recommendations</u>	21-22

FINANCIAL SECTION



# J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty Szasz, CPA  
David Skibowski, Jr., CPA

## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Honor  
Honor, MI 49640

We have audited the accompanying financial statements of the governmental activities of the Village of Honor as of and for the year ended December 31, 2005 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Village as of December 31, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

The budgetary comparison information on pages 18-20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*J. L. Stephan Co. P.C.*

February 21, 2006

**Village of Honor**  
*Government Wide*  
**Statement of Net Assets**  
*December 31, 2005*

*Exhibit A*

	<i>Governmental Activities</i>	<i>Business Type Activities</i>	<i>Total</i>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 181,966	\$ 127,254	\$ 309,220
Investments	-	-	-
Receivables	18,991	17,905	36,896
Inventory	4,950	-	4,950
Construction in Process	-	23,615	23,615
Land	2,889	-	2,889
Capital Assets - net	<u>52,600</u>	<u>281,009</u>	<u>333,609</u>
<i>Total Assets</i>	<u>261,396</u>	<u>449,783</u>	<u>711,179</u>
<b>Liabilities</b>			
Accounts Payable	-	-	-
Accrued and Other Liabilities	-	-	-
Deferred Revenue	9,926	-	9,926
Non-Current Liabilities			-
Due within one year	-	-	-
Due within more than on year	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total Liabilities</i>	<u>9,926</u>	<u>-</u>	<u>9,926</u>
<b>Net Assets</b>			
Invested in Capital Assets - net of related debt	55,489	304,624	360,113
Restricted			-
Capital Projects	-	69,868	69,868
Unrestricted	<u>195,981</u>	<u>75,291</u>	<u>271,272</u>
<i>Total Net Assets</i>	<u><u>\$ 251,470</u></u>	<u><u>\$ 449,783</u></u>	<u><u>\$ 701,253</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Village of Honor**  
Government Wide  
Statement of Activities  
For the Year Ended December 31, 2005

*Exhibit B*

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<i>Primary Government</i>							
General Government	\$ 45,236	\$ 5,487	\$ -	\$ -	\$ (39,749)		\$ (39,749)
Public Safety	300	-	-	-	(300)		(300)
Public Works	66,294	6,600	34,102	-	(25,592)		(25,592)
Community and Economic Development	492	710	-	-	218		218
Recreation and Culture	4,654	-	-	-	(4,654)		(4,654)
Other Functions	2,730	-	-	-	(2,730)		(2,730)
Interest on Long-Term Debt	-	-	-	-	-		-
<i>Total Governmental Activities</i>	<u>119,706</u>	<u>12,797</u>	<u>34,102</u>	<u>-</u>	<u>(72,807)</u>		<u>(72,807)</u>
<i>Business-Type Activities</i>							
Sewer	<u>49,101</u>	<u>65,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,976</u>	<u>15,976</u>
<i>Total Primary Government</i>	<u>\$ 168,807</u>	<u>\$ 77,874</u>	<u>\$ 34,102</u>	<u>\$ -</u>	<u>(72,807)</u>	<u>15,976</u>	<u>(56,831)</u>
<i>General Revenues</i>							
Property Taxes					70,335	-	70,335
State Shared Revenues					24,551	-	24,551
Capital Improvement Fees					-	25,483	25,483
Interest					930	1,013	1,943
Refunds					1,104	250	1,354
Miscellaneous					-	-	-
Disposal/Sale of Assets					-	-	-
Net Transfers In/(Out)					-	-	-
<i>Total General Revenues and Transfers</i>					<u>96,920</u>	<u>26,746</u>	<u>123,666</u>
<i>Change in Net Assets</i>					<u>24,113</u>	<u>42,722</u>	<u>66,835</u>
Net Assets - Beginning					<u>227,357</u>	<u>407,061</u>	<u>634,418</u>
Net Assets - Ending					<u>\$ 251,470</u>	<u>\$ 449,783</u>	<u>\$ 701,253</u>

*The Notes to Financial Statements are an integral part of this statement*

**Village of Honor**  
*Governmental Funds*  
*Balance Sheet*  
*December 31, 2005*

*Exhibit C*

	<i>General</i>	<i>Major Streets</i>	<i>Major Streets</i>	<i>Total</i>
<b>Assets</b>				
Cash - Unrestricted	\$ 101,775	\$ 35,711	\$ 44,480	\$ 181,966
Taxes & Fees Receivable	9,926	-	-	9,926
Inventory	4,950	-	-	4,950
Due from Other Funds	-	-	-	-
Due from Others	4,225	3,716	1,124	9,065
<i>Total Assets</i>	<u>120,876</u>	<u>39,427</u>	<u>45,604</u>	<u>205,907</u>
<b>Liabilities</b>				
Due to Other Funds	-	-	-	-
Deferred Revenue	9,926	-	-	9,926
<i>Total Liabilities</i>	<u>9,926</u>	<u>-</u>	<u>-</u>	<u>9,926</u>
<b>Fund Balances</b>				
Fund Balances - Unreserved	110,950	39,427	45,604	195,981
<i>Total Fund Balances</i>	<u>\$ 110,950</u>	<u>\$ 39,427</u>	<u>\$ 45,604</u>	<u>195,981</u>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>				
Capital Assets of \$212,641 net of accumulated depreciation of (\$160,041) are not financial resources and are not reported in the funds				<u>55,489</u>
<i>Net Assets of Governmental Activities</i>				<u><u>\$ 251,470</u></u>

*The Notes to Financial Statements are an integral part of this statement*



**Village of Honor**  
**Governmental Fund**  
**Statement of Revenue, Expenditures**  
**and Changes on Fund Balance**  
**For the Year Ended December 31, 2005**

*Exhibit D*

	<i>General Fund</i>	<i>Major Streets Fund</i>	<i>Local Streets Fund</i>	<i>Total Governmental Funds</i>
<i>Revenues</i>				
Property Taxes	\$ 70,335	\$ -	\$ -	\$ 70,335
Licenses & Permits	710	-	-	710
State Grants	24,551	25,255	8,847	58,653
Charges for Services	6,600	-	-	6,600
Interest Earned	500	210	220	930
Equipment Rentals	21,486	-	-	21,486
Refunds	1,104	-	-	1,104
Miscellaneous Income	-	-	-	-
<i>Total Revenues</i>	<u>125,286</u>	<u>25,465</u>	<u>9,067</u>	<u>159,818</u>
<i>Expenditures</i>				
General Government	37,385	-	-	37,385
Public Safety	300	-	-	300
Public Works	52,810	15,676	13,220	81,706
Community and Economic Dev.	492	-	-	492
Recreation and Culture	1,694	-	-	1,694
Other Functions	2,730	-	-	2,730
<i>Total Expenditures</i>	<u>95,411</u>	<u>15,676</u>	<u>13,220</u>	<u>124,307</u>
<i>Excess Revenues Over (Under)</i>				
<i>Expenditures</i>	29,875	9,789	(4,153)	35,511
<i>Other Financing Sources (Uses)</i>				
Operating Transfers In	-	-	26,051	26,051
Operating Transfers (Out)	(20,000)	(6,051)	-	(26,051)
	<u>(20,000)</u>	<u>(6,051)</u>	<u>26,051</u>	<u>-</u>
<i>Excess of Revenues and Other Sources Over (Under)</i>				
<i>Expenditures and Other Uses</i>	9,875	3,738	21,898	35,511
Fund Balance - Beginning	<u>101,075</u>	<u>35,689</u>	<u>23,706</u>	<u>160,470</u>
Fund Balance - Ending	<u>\$ 110,950</u>	<u>\$ 39,427</u>	<u>\$ 45,604</u>	<u>\$ 195,981</u>

*The Notes to Financial Statements are an integral part of this statement*

## Village of Honor

Exhibit E

*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended December 31, 2005*

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Change in Fund Balance - Total Governmental Funds (Exhibit D)	\$ 35,511
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Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$1,395) is exceeded by depreciation (\$12,793) in the current period.

(11,398)
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*Change in net assets of governmental activities (Exhibit B)*

<u>\$ 24,113</u>
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**Village of Honor**  
*Proprietary Fund*  
**Statement of Net Assets**  
*December 31, 2005*

*Exhibit F*

	<u>Sewer System</u>
<b>Assets</b>	
<i>Current Assets</i>	
Cash-Unrestricted	\$ 57,386
Due from County	4,750
Accounts Receivable	<u>13,155</u>
<i>Total Current Assets</i>	75,291
<i>Non-current Assets</i>	
Cash-Restricted	69,868
Construction in Process	23,615
Capital Assets - net	<u>281,009</u>
<i>Total Non-current Assets</i>	<u>374,492</u>
<i>Total Assets</i>	<u>449,783</u>
<b>Liabilities</b>	
Bonds Payable	-
Due to Other Funds	<u>-</u>
<i>Total Liabilities</i>	<u>-</u>
<b>Net Assets</b>	
Invested in Capital Assets - net of debt	304,624
Restricted for Capital Projects/Outlay	69,868
Unrestricted	<u>75,291</u>
<i>Total Net Assets</i>	<u><u>\$ 449,783</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Village of Honor**  
*Proprietary Fund*  
*Statement of Revenue, Expenses*  
*and Changes in Net Assets*  
*For the Year Ended December 31, 2005*

*Exhibit G*

	<u>Sewer System</u>
<i>Revenues</i>	
Sewer Charges & Hook-Up Fees	\$ 64,300
Equipment Rental	177
Fees & Permits	<u>600</u>
<i>Total Revenues</i>	65,077
<i>Operating Expenses</i>	
Salaries and Wages	11,859
Operating Supplies	3,089
Contract Services	3,470
Insurance/Audit	2,957
Printing & Publishing	306
Utilities	3,203
Repairs and Maintenance	1,539
Rentals	5,488
Miscellaneous	220
Depreciation	<u>16,970</u>
<i>Total Operating Expenses</i>	<u>49,101</u>
<i>Operating Income (Loss)</i>	15,976
<i>Non-Operating Revenues (Expenses)</i>	
Capital Improvement Charges	25,483
Interest Earned	1,013
Misc Refunds & Reimbursements	250
Bond Interest	<u>-</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>26,746</u>
<i>Income (Loss) Before Transfers</i>	42,722
Operating Transfer In	-
Operating Transfer (Out)	<u>-</u>
<i>Net Operating Transfers</i>	<u>-</u>
<i>Net Income (Loss)</i>	42,722
Net Assets - Beginning of Year	<u>407,061</u>
Net Assets - End of Year	<u><u>\$ 449,783</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Village of Honor**  
*Proprietary Fund*  
**Statement of Cash Flows**  
For the Year Ended December 31, 2005

*Exhibit H*

	<u>Sewer System</u>
<b><i>Cash Flows from Operating Activities</i></b>	
Operating income (loss)	\$ 15,976
<i>Adjustments to reconcile operating income to net cash provided by operating activities:</i>	
Depreciation	16,970
Capital Improvement Charges	25,483
Insurance Refund	250
Operating transfer in	-
<i>(Increase) decrease in current assets</i>	
Accounts Receivable	(1,986)
<i>Increase (decrease) in current liabilities</i>	
Accounts payable	-
Due to others	-
<b><i>Net Cash Flows From Operating Activities</i></b>	<u>56,693</u>
<b><i>Cash Flows from Capital and Related Financing Activities</i></b>	
Bond principal	-
Bond interest	-
Construction In Progress	<u>(15,380)</u>
<b><i>Net cash flows from capital &amp; related financing activities</i></b>	(15,380)
<b><i>Cash Flows from Investing Activities</i></b>	
Interest Income	<u>1,013</u>
<b><i>Net increase (decrease) in cash and cash equivalents</i></b>	42,326
<b><i>Cash and cash equivalents at beginning of year</i></b>	<u>84,928</u>
<b><i>Cash and cash equivalents at end of year</i></b>	<u><u>\$ 127,254</u></u>

*The Notes to Financial Statements are an integral part of this statement*

**Village of Honor**  
*Notes to Financial Statements*  
*December 31, 2005*

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Local Governmental Unit conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Local Governmental Unit:

**A. Reporting Entity**

The Village of Honor was incorporated in 1914 and is located in Benzie County, Michigan. The Village operates under a charter adopted January 30, 1915, and is governed by an elected President-Council form of government. The Village population as of the 2000 census was 299 and the current taxable valuation is \$8,400,616.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, no required organizations have been omitted from these financial statements.

**B. Government –Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Village of Honor**  
*Notes to Financial Statements*  
December 31, 2005

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

*C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village collects property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The County pays the Village for uncollected taxes from the proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect. Delinquent real property taxes receivable are offset by deferred revenue on the Village's balance sheet, as these accounts are not normally received within sixty days of year-end, and are therefore not available to finance current operations. All other revenue items are considered to be available only when cash is received by the government.

The local unit reports the following major governmental funds:

*General Fund* - This Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, and other intergovernmental revenues.

*Special Revenue Funds* – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the Village are the Major and Local Street Funds.

The local unit reports the following major proprietary fund:

*Enterprise Funds* – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Sanitary Sewage Disposal fund is operated with the intention that the cost of providing sewer services to the public will be financed or recovered primarily through charges to users.

**Village of Honor**  
*Notes to Financial Statements*  
December 31, 2005

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are changes between the government's sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services, including tape fees intended to recover current costs such as labor and material to hook up new customers. The portion of charges intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**D. Assets, Liabilities, and Net Assets or Equity**

***Bank Deposits and Investments*** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

***Accounts Receivable*** - Accounts Receivable are recorded in the Sewer Fund at the time customers are billed for current services. Uncollected delinquent accounts are placed on the customer's tax bill in the summer and any amounts not collected by the village are turned over to the County.

***Inventories*** - General Fund inventories consist of garbage bags to be resold and are recorded at cost.

***Restricted Assets*** – The revenue bonds of the enterprise fund required amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and bond reserve. Additionally, the unit charged capital improvement fees with sewer charges. The bonds have been paid off and the remaining reserve for capital improvements, as well as revenue received from capital improvement charges have been classified as restricted assets.



**Village of Honor**  
*Notes to Financial Statements*  
December 31, 2005

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

*Capital Assets* – capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation has been provided on these fixed assets using the straight line method over there estimated useful lives.

- |                                  |          |
|----------------------------------|----------|
| • Furniture and Office Equipment | 5 years  |
| • Maintenance Equipment          | 7 years  |
| • Park Equipment and Structures  | 10 years |
| • Roads & Paving                 | 20 years |
| • Buildings and Improvements     | 30 years |

*Fund Equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

*A. Budgets*

The General Fund and Special Revenue Fund types are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and shown as amended by the Village. The approved budgets of the Village for these budgetary funds were adopted at the activity level.

Encumbrance accounting is not used and appropriations normally lapse at year-end.

*B. Budget Compliance*

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended December 31, 2005, the Village had no expenditures in excess of amounts appropriated.

**Village of Honor**  
*Notes to Financial Statements*  
December 31, 2005

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**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

*A. Legal or Contractual Provisions for Deposits and Investments*

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943 as amended by act No. 217, Public Acts of 1982 and Public Act 196 of 1997, states the Village, by resolution, may authorize the Treasurer to invest surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
4. In United States government or Federal agency obligation repurchase agreements.
5. In banker's acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

*B. Types of Deposits and Investments*

The Village maintains all its surplus funds with a local bank in the form of savings/checking accounts and certificates of deposit. Interpreting the FDIC insurance coverage of \$100,000 per deposit to apply separately to the demand and time deposits of a public unit, the bank balances as of December 31, 2005 are categorized as follows:

- Category 1      Insured or collateralized with securities held by the entity or its agent in the entity's name.
- Category 2      Collateralized with securities held by the pledging financial institution's trust department or agent in entity's name.
- Category 3      Un-collateralized

	<u>Balance</u>	<u>1</u>	<u>2</u>	<u>3</u>
Cash Deposits	\$ 309,220	\$ 100,000	\$ -	\$ 209,220
Cash Equiv.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 309,220</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 209,220</u>

**Village of Honor**  
*Notes to Financial Statements*  
December 31, 2005

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**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS - continued**

At year-end, the Local Unit's cash deposits and cash equivalents were reported in the basic financial statements in the following categories:

	<u>Amount</u>
Governmental Activities	\$ 181,966
Proprietary Funds	<u>127,254</u>
Total Deposits	<u><u>\$ 309,220</u></u>

**NOTE 4 – SUMMARY OF CAPITAL ASSETS**

Capital asset activity of the primary government for the current year is summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 2,889	\$ -	\$ -	\$ 2,889
<i>Capital Assets Being Depreciated</i>				
Buildings	61,129	-	-	61,129
Equipment	138,373	1,395	-	139,768
Roads & Paving	<u>11,744</u>	<u>-</u>	<u>-</u>	<u>11,744</u>
	<u>211,246</u>	<u>1,395</u>	<u>-</u>	<u>212,641</u>
<i>Less: Accumulated Depreciation</i>				
Buildings	(56,531)	(157)	-	(56,688)
Equipment	(90,423)	(12,049)	-	(102,472)
Roads & Paving	<u>(294)</u>	<u>(587)</u>	<u>-</u>	<u>(881)</u>
	<u>(147,248)</u>	<u>(12,793)</u>	<u>-</u>	<u>(160,041)</u>
<i>Net Capital Assets being Depreciated</i>	<u>63,998</u>	<u>(11,398)</u>	<u>-</u>	<u>52,600</u>
<i>Total Capital Assets of Governmental Activities – Net of Depreciation</i>	<u><u>\$ 66,887</u></u>	<u><u>\$ (11,398)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 55,489</u></u>

**Village of Honor**  
*Notes to Financial Statements*  
December 31, 2005

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**NOTE 4 – SUMMARY OF CAPITAL ASSETS - continued**

*Business Type Activities*

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets Not Being Depreciated</i>				
Construction in Process	\$ 8,235	\$ 15,380	\$ -	\$ 23,615
<i>Capital Assets Being Depreciated</i>				
Sewage System	626,478	-	-	626,478
Equipment	<u>24,614</u>	<u>-</u>	<u>-</u>	<u>24,614</u>
	<u>651,092</u>	<u>-</u>	<u>-</u>	<u>651,092</u>
<i>Less: Accumulated Depreciation</i>				
Sewage System	(328,499)	(16,970)	-	(345,469)
Equipment	<u>(24,614)</u>	<u>-</u>	<u>-</u>	<u>(24,614)</u>
	<u>(353,113)</u>	<u>(16,970)</u>	<u>-</u>	<u>(370,083)</u>
<i>Net Capital Assets being Depreciated</i>	<u>297,979</u>	<u>(16,970)</u>	<u>-</u>	<u>(281,009)</u>
<i>Total Capital Assets of Business Type Activities – Net of Depreciation</i>	<u>\$ 306,214</u>	<u>\$ (1,590)</u>	<u>\$ -</u>	<u>\$ 304,624</u>

Depreciation expense in the current year was charged to programs of the primary government as follows:

*Governmental Activities*

General Government	\$ 9,246
Public Works	587
Parks & Recreation	<u>2,960</u>

Total Governmental Activities \$ 12,793

*Business Type Activities*

Sewer Fund	<u>\$ 16,970</u>
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**NOTE 5 – RESTRICTED RETAINED EARNINGS**

Restricted Retained Earnings represents monies set aside in the Sewer Fund for specific purposes summarized as follows:

Sewer Capital Outlay/Improvements	\$ 69,868
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**Village of Honor**  
*Notes to Financial Statements*  
December 31, 2005

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**NOTE 6 – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was made to the Sewer Fund retained earnings for depreciation incorrectly charged on construction in process. Consequently, revenues and assets were understated by \$412. The adjustment made is as follows:

Prior Year Retained Earnings	\$ 406,649
Depreciation added back	<u>412</u>
Corrected Beginning Retained Earnings	<u>\$ 407,061</u>

A prior period adjustment was made to the beginning net assets of the governmental funds for road infrastructure not capitalized in the amount of \$11,744 net of \$294 depreciation. Consequently, revenue on the government wide statement of net assets was over stated by \$294 and assets on the government wide statement of net assets was understated by \$11,450. The adjustment made is as follows

Prior Year Net Assets – Govt. Funds	\$ 215,907
Roads & Paving – net December 31, 2004	<u>11,450</u>
Corrected Beginning Net Assets- Governmental Funds	<u>\$ 227,357</u>

**NOTE 7 – RISK MANAGEMENT**

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Also, the Village carries worker's compensation insurance with The Accident Fund of Michigan. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 8 – COMMITMENTS**

The Village is in the process of planning and constructing a sewer system upgrade. The Village expects to issue bonds to fund the construction of the new project. To date, the Village has incurred approximately \$23,615 in costs related to the engineering and planning of the new project.

REQUIRED SUPPLEMENTAL INFORMATION

**Village of Honor**  
*Budgetary Comparison Schedule*  
*General Fund*  
*For the Year Ended December 31, 2005*

Schedule 1

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 101,075	\$ 101,075	\$ 101,075	\$ -
<i>Resources (Inflows)</i>				
Property Taxes	60,000	60,000	70,335	10,335
Licenses & Permits	300	300	710	410
State Shared Revenue	20,000	20,000	24,551	4,551
Charges for Services	400	400	-	(400)
Garbage Bag Sales	4,500	4,500	6,600	2,100
Interest Earned	250	250	500	250
Equipment Rentals	20,000	20,000	21,486	1,486
Refunds & Reimbursements	100	100	1,104	1,004
Miscellaneous Income	25	25	-	(25)
Transfers from Other Funds	-	-	-	-
<i>Total Available for Appropriation</i>	<u>206,650</u>	<u>206,650</u>	<u>226,361</u>	<u>19,711</u>
<i>Charges to Appropriations (Outflows)</i>				
<i>General Government</i>				
Village Council	15,625	15,625	15,184	441
Elections	50	50	-	50
Clerk	9,550	9,550	8,684	866
Treasurer	3,950	3,950	3,588	362
Village Hall & Grounds	16,200	16,200	9,929	6,271
<i>Public Safety</i>				
Fire Department	800	800	300	500
<i>Public Works</i>				
General Public Works	55,275	55,275	34,176	21,099
Highways, Streets & Bridges	5,000	5,000	4,656	344
Street Lights	9,000	9,000	7,563	1,437
Sanitation	9,000	9,000	6,415	2,585
<i>Community &amp; Economic Development</i>				
Zoning	930	930	492	438
<i>Parks &amp; Recreation</i>	<u>2,250</u>	<u>2,250</u>	<u>1,694</u>	<u>556</u>
<i>Other Expenditures</i>				
Legal	5,300	5,300	2,719	2,581
Equipment Rental	25	25	11	14
Contingencies	10,000	10,000	-	10,000
Miscellaneous	-	-	-	-
Transfers to Other Funds	20,000	20,000	20,000	-
<i>Total Charges to Appropriations</i>	<u>162,955</u>	<u>162,955</u>	<u>115,411</u>	<u>47,544</u>
 Budgetary Fund Balance	 <u>\$ 43,695</u>	 <u>\$ 43,695</u>	 <u>\$ 110,950</u>	 <u>\$ 67,255</u>

*Notes to Financial Statements are an integral part of this statement*

**Village of Honor**  
*Budgetary Comparison Schedule*  
*Major Streets Fund*  
*For the Year Ended December 31, 2005*

Schedule 2

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 35,689	\$ 35,689	\$ 35,689	\$ -
<i>Resources (Inflows)</i>				
State Gas & Weight	20,000	20,000	24,478	4,478
State Metro Act	750	750	777	27
Interest Earned	100	100	210	110
Miscellaneous Income	-	-	-	-
Transfers from Other Funds	-	-	-	-
<i>Total Available for Appropriation</i>	56,539	56,539	61,154	4,615
<i>Charges to Appropriations (Outflows)</i>				
Construction	-	-	-	-
Non-Motorized	200	200	-	200
Routine Maintenance				
Salaries and Wages			1,833	
Road Maintenance Supplies			255	
Equipment Rental			4,186	
Contract Services			1,350	
Miscellaneous			-	
<i>Total Routine Maintenance</i>	9,600	9,600	7,624	1,976
Winter Maintenance				
Salaries and Wages			1,800	
Road Maintenance Supplies			262	
Equipment Rental			4,496	
Contract Services			-	
Miscellaneous			-	
<i>Total Winter Maintenance</i>	8,300	8,300	6,558	1,742
Traffic	155	155	-	155
Administration	1,600	1,600	1,494	106
Transfers to Other Funds	6,500	6,500	6,051	449
<i>Total Charges to Appropriations</i>	26,355	26,355	21,727	4,628
Budgetary Fund Balance	<u>\$ 30,184</u>	<u>\$ 30,184</u>	<u>\$ 39,427</u>	<u>\$ 9,243</u>

*The Notes to Financial Statements are an integral part of this statement*



**Village of Honor**  
*Budgetary Comparison Schedule*  
*Local Streets Fund*  
For the Year Ended December 31, 2005

Schedule 3

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 23,706	\$ 23,706	\$ 23,706	\$ -
<i>Resources (Inflows)</i>				
State Gas & Weight	7,000	7,000	8,070	1,070
State Metro Act	750	750	777	27
Interest Earned	75	75	220	145
Miscellaneous Income	-	-	-	-
Transfers from Other Funds	26,500	26,500	26,051	(449)
<i>Total Available for Appropriation</i>	<u>58,031</u>	<u>58,031</u>	<u>58,824</u>	<u>793</u>
<i>Charges to Appropriations (Outflows)</i>				
Construction	40,000	39,000	-	39,000
Non-Motorized	70	70	-	70
Routine Maintenance				
Salaries and Wages			1,472	
Road Maintenance Supplies			276	
Equipment Rental			3,292	
Contract Services			-	
Miscellaneous			-	
<i>Total Routine Maintenance</i>	<u>6,200</u>	<u>6,200</u>	<u>5,040</u>	<u>1,160</u>
Winter Maintenance				
Salaries and Wages			1,703	
Road Maintenance Supplies			270	
Equipment Rental			4,190	
Contract Services			-	
Miscellaneous			-	
<i>Total Winter Maintenance</i>	<u>7,800</u>	<u>7,800</u>	<u>6,163</u>	<u>1,637</u>
Traffic	155	155	-	155
Administration	1,500	2,500	2,017	483
Metro Act	750	750	-	750
Transfers to Other Funds	-	-	-	-
<i>Total Charges to Appropriations</i>	<u>56,475</u>	<u>56,475</u>	<u>13,220</u>	<u>43,255</u>
Budgetary Fund Balance	<u>\$ 1,556</u>	<u>\$ 1,556</u>	<u>\$ 45,604</u>	<u>\$ 44,048</u>

The Notes to Financial Statements are an integral part of this statement

OTHER INFORMATION (UNAUDITED)

## Village of Honor

### Comments and Recommendations

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We have audited the combined financial statements of the Village of Honor for the year ended December 31, 2005 and issued our report thereon dated February 21, 2006. As part of our examination, we considered the Village's internal control structure. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole. Because the study and evaluation were only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all of your accounting procedures and therefore, would not necessarily disclose all weaknesses in the system.

In a continuing effort to improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for you to consider.

#### Budgeting

We noted the adoption of the 2005 budget as presented in the board meeting minutes. However, the minutes did not indicate the amount of revenues or expenditures for the budgeted funds nor did the minutes reflect that a document stating such was attached. Consequently, there was no definitive statement indicating the amount and level at which the budget was adopted.

The budget sheets provided by the Clerk were an improvement over those provided in prior years. However, after discussing with the Clerk the items provided, we noted some expenditure amounts for the Local Streets Fund appeared to be the final amended budget and did not reflect the original budget. The budgets for the other funds appeared to be reasonably stated.

In summary, we recommend the budget originally adopted for a fiscal year be clearly noted and attached to the meeting minutes. Additionally, all budget amendments should be noted in meeting minutes and summarized separately on sheets detailing the budget amendments or clearly reflected on the summary with a final budgeted amount. The Clerk made progress implementing this recommendation from last year and should be commended for her efforts. However, as discussed with the Clerk, there are opportunities to improve.

We strongly recommend the Village Council review the *Michigan Department of Treasury – Uniform Budget Manual for Local Units of Government* which is readily available on the Treasury's website:

[http://www.michigan.gov/documents/UniformBudgetManual\\_16634\\_7.pdf](http://www.michigan.gov/documents/UniformBudgetManual_16634_7.pdf).

The manual is a great reference for proper budgeting procedures and practices and has examples of a recommended budget as well as a general appropriations act and budget.

## **Village of Honor**

### *Comments and Recommendations*

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#### Chart of Accounts

We understand the Village intends to implement a computerized accounting system in the future. During implementation, we recommend the Village establish its chart of accounts based on the *Michigan Department of Treasury – Uniform Chart of Accounts for Counties and Local Units of Government*. The new chart is based on the GASB 34 reporting format. It is also available on the Treasury's website:

[http://www.michigan.gov/documents/uniformchart\\_24524\\_7.PDF](http://www.michigan.gov/documents/uniformchart_24524_7.PDF).

#### Closing Comments

We will be happy to discuss any of these recommendations with you and assist you in their implementation. As a matter of course, we will forward the necessary copies of this audit report to the State Treasury Department. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise on these financial statements or our audit, please call upon us.